

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 2535 – HB 3423

February 1, 2012

**SUMMARY OF BILL:** Requires annual adjustment, on July 1 of each year, to the maximum allowable income exemption levels, for single and joint filers of the Hall Income Tax, who are 65 years of age and older, by the percent change of the consumer price index as published by the United States Department of Labor, Bureau of Labor Statistics. Requires adjusted exemption levels apply to the following tax year.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact - \$88,300/FY13-14**

**Decrease Local Revenue – Net Impact - \$53,800/FY13-14**

**Other Fiscal Impact – The fiscal impact of this bill for FY14-15 and subsequent years is dependent upon multiple unknown factors. Given the extent of unknown factors, these impacts cannot be quantified with reasonable certainty.**

Assumptions:

- The first exemption level adjustment will occur July 1, 2012, and will be applicable to tax year 2013.
- Under current law, 100 percent of Hall Income Tax for tax year 2013 is settled during FY13-14. This collection pattern is assumed to remain constant into perpetuity. As a result, the first year impacted will be FY13-14.
- Pursuant to Tenn. Code Ann. § 67-2-104(b), the current maximum allowable exemption levels, for single and joint filers of the Hall Income Tax, who are 65 years of age and older, are currently \$26,200 and \$37,000 respectively.
- According to the Department of Revenue (DOR), the exemption levels applicable to tax year 2013 would increase by approximately three percent as a result of this bill. Therefore, the maximum allowable exemption for single filers would be approximately \$26,986 (\$26,200 x 103.0%), and the maximum allowable exemption for joint filers would be approximately \$38,110 (\$37,000 x 103.0%).
- According to DOR, increasing the maximum allowable exemption for single filers by \$786 (\$26,986 - \$26,200) and for joint filers by \$1,110 (\$38,110 - \$37,000) would impact approximately 195 single filers and approximately 199 joint filers.

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- Based on tax return data, DOR indicates the decrease in Hall Income Tax revenue applicable to the 195 single filers would be approximately \$74,500, and the decrease in Hall Income Tax revenue applicable to the 199 joint filers would be approximately \$74,700. Therefore, a total decrease in Hall Income Tax revenue of \$149,200 (\$74,500 + \$74,700) in FY13-14. The Fiscal Review Committee staff does not have access to the data and information upon which this calculation is based and cannot independently verify its accuracy.
- Pursuant to Tenn. Code Ann. § 67-2-119(a), the state retains 62.5 percent of Hall Income Tax revenue; local governments are apportioned 37.5 percent.
- Fifty percent of tax savings will be spent in the economy on sales taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The increase in state sales tax revenue for FY13-14 is estimated to be \$5,222 ( $\$149,200 \times 50.0\% \times 7.0\%$ ); the increase in local option sales tax revenue for FY13-14 is estimated to be \$1,865 ( $\$149,200 \times 50.0\% \times 2.5\%$ ).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- The net increase in state sales tax revenue for FY13-14 is estimated to be \$4,982 [ $\$5,222 - (\$5,222 \times 4.5925\%)$ ]; the total increase in sales tax revenue to local governments for FY13-14 is estimated to be \$2,105 [ $\$1,865 + (\$5,222 \times 4.5925\%)$ ].
- The net decrease in state revenue for FY13-14 is estimated to be \$88,268 [ $(\$149,200 \times 62.5\%) - \$4,982$ ].
- The net decrease in local revenue for FY13-14 is estimated to be \$53,845 [ $(\$149,200 \times 37.5\%) - \$2,105$ ].
- The fiscal impact of this bill beyond FY13-14 is dependent upon several unknown factors such as the percent change of the consumer price index as published by the United States Department of Labor, Bureau of Labor Statistics, the resulting changes to the exemption levels, changes in taxpayer income, and the number of taxpayers affected by subsequent exemption level changes. Given the extent of unknown factors, determining precise fiscal impacts for FY14-15 and subsequent years cannot be quantified with reasonable certainty.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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